Construction Inflation

Access to and within the National Park System has been a defining experience for generations of visitors.

The National Park Service (NPS) coordinates the planning and implementation of transportation systems that improve the visitor experience and care for national parks by:

- Preserving natural and cultural resources.
- Enhancing visitor safety and security.
- Protecting plant and animal species.
- Reducing congestion.
- Decreasing pollution.

NPS is committed to being a leader in pursuing strategies that can help make park units more enjoyable, cleaner, quieter, and more sustainable for present and future generations.

For more information, visit **nps.gov/transportation**

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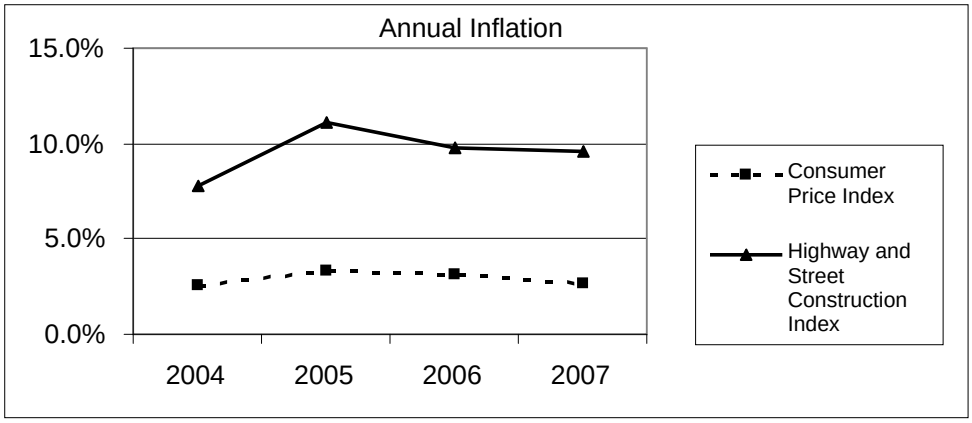
EXPERIENCE YOUR AMERICA

Since the passage of SAFETEA-LU in 2005, escalating fuel and construction material prices have had a significant impact on NPS road and bridge construction projects.



Annual inflation in the construction industry has increased dramatically compared to the Consumer Price Index.

The Producer Price Index for Highway and Street Construction ($PPI_{H\&SC}$), the Federal Government's index which tracks prices in the transportation construction industry, has increased at a rate higher than many other sectors as well as consumer prices, especially since 2003. The immediate effect of this will be that road and bridge projects needed to rehabilitate the National Park Service transportation system will be more expensive than originally planned. The more far-ranging effect will be that the fixed Park Roads and Parkways budget, the framework in which these projects were developed, will require that many of these projects be deferred until later years. As this occurs, the opportunity to perform less expensive maintenance will be replaced by the necessity to perform increasingly more expensive rehabilitation work.

The Park Roads and Parkways budget was developed under the assumption that construction industry prices would increase much as prices do economy-wide. One common way to measure overall inflation is through the increase in prices of a market basket of commonly consumed items, measured by the Consumer Price Index (CPI). In recent years, the CPI has held steady at about a three percent annual increase, while the $PPI_{H\&SC}$ has increased at almost 10% annually. In practical terms, this means that while the purchasing power of a dollar for ordinary consumers has decreased by 11% since 2003, purchasing power of a dollar for the Park Roads and Parkways Program has decreased by 33%. Purchasing power for the NPS has decreased at a rate almost three times that of ordinary inflation.

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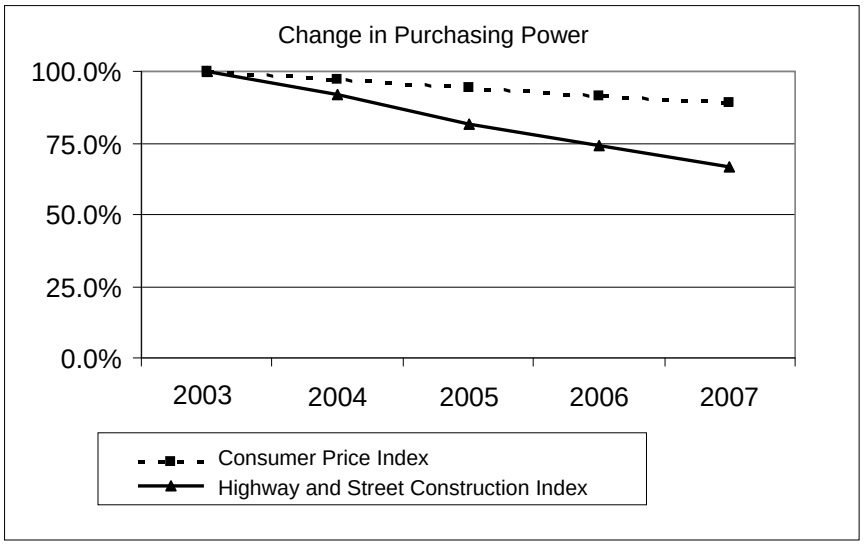
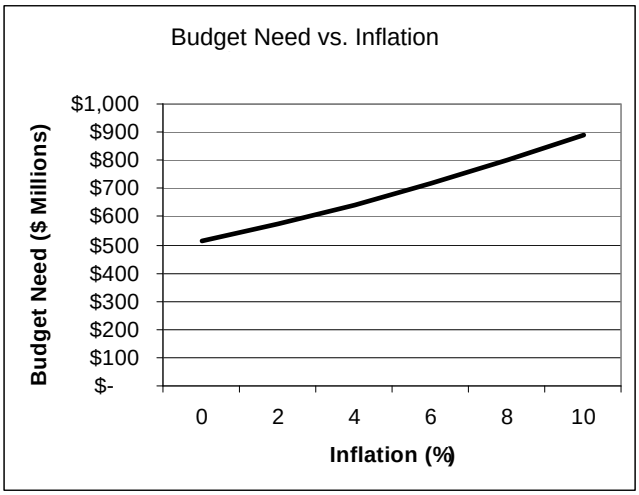


Purchasing power for the NPS has decreased at a rate almost three times that of ordinary inflation

This greater level of inflation also will affect the needs of the NPS transportation system, as demonstrated by the Park Roads and Parkways budget request for the next Transportation reauthorization bill. The request for $643 million to restore the NPS roads network to acceptable condition is predicated on an inflation rate of 4%, a rate generated in Office of Management and Budget Circular A-94. However, if the inflation in Highway and Street Construction prices is higher than 4%, then the NPS transportation needs will be greater as demonstrated in the "Budget Need vs. Inflation" chart.



NPS transportation budget needs will rise if inflation in Highway and Street Construction prices is higher than 4%.

Understanding price increases

The difference in the rates between the $PPI_{H\&SC}$ and the CPI occurs because of the differences in the makeup of these two indices. Whereas the CPI measures changes to finished goods and services used by consumers, the $PPI_{H\&SC}$ measures changes to materials, equipment, and labor required to perform highway construction. The wider variety of substitutable materials that make up consumer goods can lead the CPI to grow slower than some producer indices as manufactures continue to make the same goods with different components. Construction does not face so fortuitous a situation; concrete, steel, and asphalt can substitute for each other to some degree, but there is no substitute for using some combination of them. Increases in these and other construction commodities have driven the increase in the $PPI_{H\&SC}$.

Price increases have been driven by a number of forces. The recent boom in domestic housing and commercial construction has increased demand for resources. The growing economies of China, India, and other developing nations have increased the demand for these commodities. Increasing fuel costs have both driven up the costs of other materials as well as increased the costs to operate construction machinery. In addition to higher energy, material, and transportation costs, the NPS is impacted by consolidation in the number of prime contractors which compete for larger State transportation programs. There are also spot shortages of labor in specific regions of the country due to such activities as hurricane recovery.